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The Market Now (Last of a Series)

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While the war in Ukraine grinds along amid depressing headlines, investors of all stripes are settling into the view that economic effects of the war will be more local than widespread (see our *Quote of the Week*).

Public equities in particular have recovered their value since Russia's invasion of February 24, having priced in, for the moment, the likeliest worst-case scenario.

Credit investors are more focused on the hawkish post-hike commentary from Fed Chair Powell. Perhaps in response to St. Louis Fed President James Bullard's lone dissent, voicing the need for a more aggressive stance, Powell said "If we think it's appropriate to raise [by a half a point]…we will do so."

Observers have also noted the further flattening of the Treasury yield curve, with two-year rates edging up in response to Powell's statement. That trend has raised concerns of an inverted yield curve and the signal that historically sends of a potential slowdown.

But as Nuveen's Brian Nick pointed out recently in a note, the US economy is hardly stumbling. Housing starts and permits are up smartly, manufacturing production is on the rise, and GDP estimates remain solidly in the 3% range.

That mix is constructive for credit. Though strong growth is not necessary for good loan or bond performance, keeping a recession at bay is helpful.

High-yield bond issuance, stalled in February and March, has shown few signs of life. Retail funds lost more than $20 billion this year as the threat of higher rates sapped investor interest in fixed income assets. Year to date junk bond activity totaled $37 billion, according to S&P/LCD, down sharply from last year's $132 billion.

Leverage loans for this year have been more productive. While overall volume has been down about 30% year-over-year ($132 billion vs. $186 billion), M&A-related financings were up 22% ($82 billion vs. $67 billion).

In private markets, M&A softened from its torrid pace of 4Q 2021. Quality also took a hit. When stock indices fell in February, bankers worried about a chilling effect on private valuations. As one partner told us, "Why launch into this market if you don't have to?"

But with public equities recovering, so did expectations for more robust private deal pipelines. "It's been a slow start," a direct lender reported. "But we're seeing a pick-up for the second quarter. Now we just need no more bad surprises."